
From: Daniel Sabba [REDACTED]
Sent: 11/3/2014 12:17:38 PM
To: jeevacation@gmail.com
CC: Paul Morris [REDACTED]; Vahe Stepanian [REDACTED]; Stewart Oldfield [REDACTED]; [REDACTED]
Subject: Update in USDCNH
Attachments: pic20772.gif; pic26053.gif; pic19391.gif; pic29162.gif; pic27664.gif; pic06364.gif; pic23859.gif; pic06827.gif; pic17078.gif; pic26992.gif

Classification: Public

Jeffrey,

Rich and I spoke last week on USDCNH, and I wanted to send a recent piece from our research team on this topic. For full disclosure, I personally don't share our research team's recommendation, as USDCNH vol still extremely low and it represents a very cheap out-of-consensus expression of CNH out-performance vs. USD, so don't see the value of crossing bid offer on the transaction. Having said that, our research team advocates closing their USDCNH put spreads as they view "the next phase of FX depreciation will be driven more by China's own worsening fundamentals, namely: 1) slower growth and disinflation, (2) a pick-up in outflows, (3) de-leveraging that increases short-term risks and (4) valuations approaching expensive extremes"

You could unwind you \$75mm USDCNH put struck at 6.16 expiring on 12-Aug-2015 for \$270k bid (Spot ref 6.1310 - the mid would be \$315k - pricing as of noon 11/03/2014)
You paid \$273k for it.

More details on the research piece below.

Best regards,
Daniel

----- Forwarded by Daniel Sabba/[REDACTED] on 11/03/2014 11:49 AM -----

Classification: Public

China growth is facing increasing headwinds, with DB Economics downgrading our 2015 growth forecast to 7.0% this week. In this context, we believe RMB weakness will return to haunt the market in 2015. This weakness will be different from the early 2014 squeeze, which appeared to be engineered by policy-makers to target speculative capital. The next phase of RMB depreciation will be driven more by China's own worsening fundamentals, namely: (1) slower growth and disinflation, (2) a pick-up in outflows, (3) de-leveraging that increases short-term risks and (4) valuations approaching expensive extremes. In our view, the resistance from policy-makers to FX weakness will be minimal since it will reflect underlying fundamentals, and authorities should be comfortable with a more market-driven RMB. Moreover, retaining the current policy bias for appreciation would only pull in more 'hot' money flows, which increase systematic risks in China. With this in mind, we are reducing the long CNH exposure in our portfolio by closing out our USD/CNH put spread. The slowdown in Chinese growth and RMB weakness is also likely impact other Asian currencies. We examine four channels of spillover: (1) exports, (2) FDI, (3) financial linkages, and (4) FX policy, and find the KRW, MYR and TWD to be most likely to be affected.

Link:
http://pull.db-gmresearch.com/cgi-bin/pull/DocPull/2643-DFF1/41968444/DB_AsiaFXStrat_2014-10-23_0900b8c088c00869.pdf

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